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No. 85-1579

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1985

ROBERT BOGGILD and WILLIAM L. DALE,
Petitioners,

v.

KENNER PRODUCTS, A DIVISION OF
CPG PRODUCTS CORPORATION,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

REPLY BRIEF IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

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ARGUMENT

Kenner's position (which it says this Court, the Eleventh Circuit and the Sixth Circuit have adopted, ignoring everything this court and those courts have said about misuse of the leverage of a patent monopoly) is simple and direct: whenever a patent exists or comes into being covering any part of the subject matter of a license agreement, royalties are automatically limited to the expiration date of the patent, because, Kenner says, any agreement to pay royalties is *per se* invalid to the extent that the term of the royalty obligation turns out to exceed the life of the patent.

It doesn't take much imagination to perceive the disastrous effects of such a *per se* rule of invalidity upon the market place for new ideas. Any license agreement for unpatented subject matter for which the licensee wants to apply for a patent would become completely uncertain as to its royalty obligation. At the time of negotiating the license agreement, the parties would not know when a patent would issue, if at all. If a patent did not issue, the licensor would clearly be benefitted: having already restricted himself by contract from licensing his invention to others, and having negotiated the best royalty terms he could for all his rights and technical know how in the absence of a patent, he would receive the full benefit of his bargain. Patent issuance, on the other hand, would be a windfall to the licensee, and a disaster to the licensor: If the patent were issued soon enough, the licensee would be relieved of the royalty obligation at the time the patent expired. The longer it took to get the patent issued, the closer the licensor would approach the full realization of his bargain. By diligently prosecuting the patent application, however, the licensor would be digging his own grave. Hence the Kenner/Sixth Circuit *per se* rule encourages delay in the issuance of patents.

Let us look at another example. Assume two parties negotiate a certain royalty for the exchange of technology. The careful lawyer for the licensee asks the licensor if there

are patents that should be licensed under the agreement to be sure that the licensee could practice the technology without infringing such patents. The patents are added, not as a block of rights transferred to enhance licensee's exclusive position, but rather as a safety measure to avoid placing the licensee in the position of infringing the licensor's patents. Under this scenario, a highly likely one, the Kenner/Sixth Circuit *per se* rule would have the agreement expire with the expiration of the patent, regardless of what the parties decided in their negotiations would be an appropriate expiration date.

Suppose an inventor waited to license his invention until he had it patented. In that case, the value of the invention would be limited by an ever-decreasing time period, if the Kenner/Sixth Circuit *per se* rule were the law. If the invention was ahead of its time, or a market did not appear for it until the patent was about to expire, such a *per se* rule would require that the inventor would receive little or no benefit for his disclosure of the invention to the public through the patent process. Indeed, the Kenner/Sixth Circuit *per se* rule would prevent the payment of any royalties beyond the patent expiration date, even if the parties agreed to pay royalties for the invention in installments, rather than lumping royalty payments in the short remaining time of the patent life.

The Kenner/Sixth Circuit *per se* rule would thus transmutate patent protection from a boon intended to encourage the invention and disclosure of new ideas and products, to a trap in which the inventor would find to his dismay that he is powerless to prevent a licensee from reneging on an agreement, fairly negotiated, for the value of his invention.

This Court intended no such result in *Brulotte* v. *Thys Co.*, 379 U.S. 29, 85 S.Ct. 176 (1964). The leverage issue, which Kenner ignores, and which clearly is an issue of fact, was central to this Court's holding in *Brulotte*, as the Court later affirmed in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, at 264-65, 99 S.Ct. 1096, at 1100 (1979). The unfortunate implications drawn by lower courts from the *per se* language of

the *Brulotte* opinion, however, have led to a series of lower court decisions, including the present one, in which courts have been distracted from the leverage inquiry by the facile attractiveness of a *per se* rule[1]. The full extent of this distraction may not have been apparent to this Court when it denied Certiorari in *Pitney Bowes Inc.* v. *Mestre*, 701 F. 2d 1372 (11th Circuit, 1983), cert. den., 104 S.Ct. 239. But this case has now arisen in the Sixth Circuit, and the Meehan Case[2] is pending in the Seventh Circuit, and the time is ripe for this Court to decide whether freedom of contract or government-sanctioned default will carry the day.

It is significant that every lower court case from *Mestre* to *Boggild* to *Meehan* has relied, in its application of the "*per se*" rule, upon this court's *obiter dicta* in *Aronson* to the effect that if a patent had issued, Mrs. Aronson "would have received a five percent royalty only on key holders sold during the seventeen-year life of the patent." 440 U.S. 257, at 263-64, 99 S.Ct. 1100. Such a use of *dicta* is not only unwarranted; it fairly demands authoritative review and pronouncement by this Court.

Kenner's insistence on the *per se* rule has unwittingly caused it to posit a conflict between the Sixth Circuit Opinion in this case and the Eleventh Circuit Opinion in *Mestre*. If footnote twelve of the *Mestre* opinion (701 F. 2d at 1373) is not to be ignored, the leverage issue is an issue of fact, subject to proof, upon which application of the *Brulotte* rule may turn. Kenner, however, sweeps aside the leverage issue as totally irrelevant, and says that the Sixth Circuit opinion in this case was based solely on Kenner's *per se* rule, incredibly

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[1] At least four members of this Court have recently expressed disfavor of the use of *"per se"* rules, in a concurring opinion in *Jefferson Parish Hospital District No. 2* v. *Hyde*, 446 U.S. 2, 104 S.Ct. 1551, 80 L. Ed. 2d 2 (1984), see the text accompanying footnotes 2 and 7.

[2] *Meehan* v. *PPG Industries Inc.*, No. 84 C 6967 (N.D. Ill. July 3, 1985), appendix to Kenner's brief; the same counsel represent Kenner here and PPG in that case.

dismissing as mere "dictum" the last nine paragraphs of the Sixth Circuit Opinion, in which it unmistakably made findings of fact on the leverage issue. If the Sixth Circuit really meant to expend so much energy on *dictum* — if it really based its decision solely on Kenner's *per se* rule — then its reasoning, if not its result, is in conflict with the Eleventh Circuit in *Mestre*.

Underlying Kenner's reading of the *per se* rule is its assertion that the public interest in a post-patent-expiration free market for patented material prevents the retention by the licensor of any vestige or attribute of the patent monopoly after the patent expires, especially the right to receive royalties from the licensee. Kenner ignores the fact that all members of the public *are* free to practice the invention after the patent expires; only the licensee, Kenner in this case, has to pay royalties to the end of its contract term. In this case, this is a result that Kenner's predecessor freely bargained for and which Kenner did nothing to change when it became the assignee of the license agreement and renegotiated some of its terms in 1970.

Kenner's indulgence in the self-serving fiction that the market freedom of its consuming public is affected by the lingering royalty obligations is simply not worthy of any credence: the retail price of a product is affected by many factors other than costs, including royalties, the most important of which factors is the amount of profit the manufacturer and subsequent dealers think the market will bear. To suggest that the public would enjoy a price reduction if Kenner were relieved of its royalty obligation is disingenuous, if not outright deceitful.

Kenner finds its primary support for its *per se* rule in certain sweeping language contained in this Court's opinion in *Scott Paper Co.* v. *Marcalus Co.*, 326 U.S. 249, 66 S.Ct. 101 (1945). Even though this Court based its decision in *Brulotte* partly upon *Scott Paper Co.*, it is clear from the *Brulotte*

opinion, and this Court's explanation of *Brulotte* in *Aronson*, that the *Brulotte* rule of patent misuse is not the rule of *per se* invalidity which Kenner espouses.[3] *Scott Paper*, of course, did not involve a license agreement or the question of validity of a royalty term. To the extent it was applied by this Court in *Brulotte*, the language of *Scott Paper* that "any attempted reservation or continuation in the patentee . . . of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws" (326 U.S. at 256, 66 S.Ct. 104), clearly was limited by this Court in *Brulotte* to the misuse of patent leverage, and nothing more.

The fact that the members of the American Intellectual Property Law Association have undertaken to file an amicus brief in support of this Petition for Certiorari is a strong indication of the public importance of the issue involved in this petition. To settle the confusion over what facts and circumstances require the invalidation of a royalty agreement for conflict with federal patent law; to halt the pernicious spread of a *per se* rule that permits licensees to evade payment of royalties in the name of the "public interest"; and to provide an adequate measure of certainty, for the members of the intellectual property law Bar and their clients, as to

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[3] Kenner even misquotes this Court's opinion to achieve its unwarranted conclusion. Where this Court said in *Brulotte*, "We are, therefore, unable to conjecture what the bargaining position of the parties might have been . . . had the provision for post-expiration royalties been divorced from the patent and no wise subject to its leverage," Kenner says this Court "was not interested in conjecturing" (Kenner brief page 10) and "did not want to 'conjecture' as to what the bargaining position of the parties might have been." (Kenner brief, page 22). The difference between "not interested" and "unable" is considerable. It is, as Kenner must recognize, the difference between *per se* invalidity and invalidity based upon the misuse of patent leverage.

what royalty agreements will be enforceable, this Court should grant Certiorari.

Respectfully submitted,

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